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Agenda Item 4a

April 12, 2011

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. **SUBJECT:** Self-Funded Health Plans 2010 Year-End Financial Report
- II. **PROGRAM:** Health Benefits
- III. **RECOMMENDATION:** Information
- IV. **ANALYSIS:**

This report is to provide the Health Benefits Committee with an update on the financial status for the six CalPERS self-funded Preferred Provider Organization (PPO) health plans for the calendar year ending December 30, 2010.

At the end of 2010, the actual overall combined loss ratio for the self-funded health plans was eight percent above break-even. This compares to four percent above break-even at the end of calendar year 2009 after adjusting for the effects of the premium holiday, and seven percent above break-even for the third quarter of 2010. While claims experience had been increasing during 2009 and peaked during the first quarter of 2010, it has now leveled off.

There was an actual overall underwriting loss of \$140.7 million for all six self-funded health plans. However, this loss is expected because the 2010 rates were calculated based on a spend-down of excess reserves.

Assets for the program are currently \$552.8 million, which is a decrease of \$34.8 million from the assets at the end of 2009. Total reserves for the program are \$405.8 million, which is an increase of \$7.1 million over the reserves at the end of 2009. Actual assets above the actuarial reserve requirements are therefore \$147.0 million, which is a decrease of \$41.9 million for the year. Overall, the self-funded health plans have a ratio of assets to reserves of 136 percent.

In summary, the overall financial position of the self-funded health plans remains stable. The ongoing financial results for the program assets are positive, providing assurance that the rates approved by the Board for the 2010 plan year were sufficient to fund benefits and to maintain adequate reserves. Attachments 1 through 7 provide key graphical analyses of financial and historical data. Appendices A, B, C, D, and E display background data used to generate the analyses in Attachments 1 through 7.

Attachment 1

This attachment presents the loss ratios for each plan. All plans except PERS Select Basic produced an underwriting loss. The loss ratios are similar to the first three quarters of 2010.

Attachment 2

This attachment displays summary results for the underwriting gain or loss. PERS Select Basic produced an underwriting gain. The other plans produced underwriting losses.

Attachment 3

This attachment presents the per-member-per-month (PMPM) medical and pharmacy claims costs for the last 13 quarters beginning with the second quarter of 2007.

Attachments 4a and 4b

These attachments display the medical and pharmacy trends. In the basic plans, shown in Attachment 4a, the PERSCare medical trend has decreased from its high of 24 percent, while the PERS Choice medical trend has dropped down into the single digits, after being between 10 and 15 percent during 2009. The PERS Select trend now appears to be tracking the Choice trend. The pharmacy trend for Care continues to increase while the Choice trend is level. For the supplemental plans, shown in Attachment 4b, both medical and pharmacy trends are level or decreasing.

Attachment 5

This attachment presents assets and reserves for the self-funded health plans. Assets exceed reserves for all plans except the PERS Select Supplement to Medicare plan. Total program assets exceed total program reserves by \$147.0 million.

Attachment 6

This attachment highlights the relative strength of the assets compared to the actuarial reserve. The overall levels of the assets in the self-funded health plans remain positive and indicate that assets and reserves are adequate to cover program liabilities.

Attachment 7

This attachment shows the overall enrollment trends for the six self-funded health plans. Enrollment in PERSCare continues to decline as enrollment has shifted to PERS Choice and PERS Select. Overall, the enrollment is very stable.

V. STRATEGIC PLAN:

This agenda item directly relates to Strategic Goal #10: Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers.

VI. RESULTS/COSTS:

There is no cost associated with this agenda item.

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Attachments